

Technical Report 12-002

**Investigating the Small and Medium Enterprise
Landscape of Accra, Ghana: Prospects and Barriers
to Economic Development**

Daniel Evans

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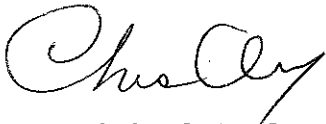
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Investigating the Small and Medium Enterprise Landscape of Accra, Ghana: Prospects and Barriers to Economic Development

Daniel Evans

As part of its ongoing studies of economics, capital markets, and economic development in frontier and emerging markets, researchers from the Network Science Center spent seven days in Ghana meeting with local entrepreneurs and financiers in order to improve our understanding of the challenges faced by Small and Medium Enterprises (SMEs) in emerging markets. The goal of this fact-finding trip was to create a quantitative and networked-based framework in which to successfully analyze these challenges. This paper will summarize the lessons that the team learned, describe specific details faced by entrepreneurs in Ghana, and propose a framework to analyze the process of establishing SMEs in a country like Ghana. A follow-on white paper will describe the proposed framework in much greater detail.

Importance of SMEs:

Most development experts agree that SMEs are pivotal to ensuring economic growth. For instance, SMEs make up over 95% and up to 99% of enterprises and are responsible for between 60-70% of the job creation in Organisation for Economic Co-operation and Development OECD countries.¹ While they may be important to developed countries, they are even more important to the developing world where abysmal employment rates and huge gaps between the rich and the poor create desperate living situations. Based on several visits, our research team appreciate that Ghanaians, in general, tend to be very entrepreneurial. Our team's observations and conversations validated the fact that it is very challenging to be an entrepreneur in Africa.

The team met with a diverse range of firms to include a human resources firm, a call center and back-office outsourcing company, a billboard advertising company, an industrial automation improvement product manufacturer, and a traditional metal and cosmetics manufacturer. The team was also fortunate to meet with partners at an African-based investment banking firm that has offices in Accra, Lagos, and Johannesburg. By request, we have made anonymous any specific or identifying business information so as not to divulge any information that might harm the business from a competition standpoint. The companies ranged in size from two people (albeit

¹ OECD. (2006). Financing SMEs and Entrepreneurs. *Policy Brief*. Retrieved from <http://www.oecd.org/dataoecd/53/27/37704120.pdf>.

with a large amount of out-sourced labor) to approximately 25 employees with annual revenues ranging from approximately US\$ 1-3 million. These firms were innovative and vibrant organizations with ambitious growth plans contrary to western stereotypes.

Insights:

1. Perception of “stability”

An advantage that entrepreneurs in Ghana have that their counterparts in other parts of Africa do not is an environment of political stability. Ghana has held five national elections since the establishment of the Fourth Republic in 1993. All of these elections have been described as generally peaceful, free, fair, and transparent by domestic and international observers. These elections have included candidates of multiple parties and members of the two “majority parties,” the National Democratic Congress and the New Patriotic Party, each of which have held the position of President. Our conversations with business owners and financiers indicate that there is great confidence that this stability will remain a permanent condition. Additionally, our research team observed, despite the inherent challenges, a widespread general optimism, generating an environment in which entrepreneurs are willing to accept risk and work on long-term business plans.

The civil rights promised by the 1979 constitution and re-instituted by the 1992 constitution are evident to any visitor to Ghana. The ability for Ghanaians to freely speak and express themselves is readily apparent from news programs and talk shows on both television and radio; it was also clear in the conversations our team engaged in with Ghanaians of all social statuses. Our general perceptions were that most Ghanaians appear to be politically aware and ready to freely voice their opinions on these matters.

2. Challenges to SME Development and Growth.

- a. **Regulatory Requirements.** Ghanaian law dictates that a firm must register with the General Registrar and the Revenue Authority before commencing business. This bureaucratic process can be intimidating to the less savvy or inexperienced entrepreneur. For example, the documents must be submitted to central offices in Accra and no satellite offices are available throughout the rest of the country. However, the majority of CEOs we interviewed indicated that the process has improved over the past few years.

An example of the improved process is the “name check,” which ensures that the business name is not already registered. It is now a simple electronic query in a database; in the past, a government employee

would have to comb through paper files in the government archives.

Additionally, the Ghana Revenue Authority was recently created from three formerly separate organizations: the Internal Revenue Service, the Value Added Tax Service, and Customs. The process has since been streamlined organizationally and digitally. Firms can now register at a single location with the tax authorities. One CEO told us “you used to have to walk the hallways” but now the process is more electronic and less paper-based and there appears to be a new sense of urgency in the Registry.

Additionally, if a firm is going to manufacture goods, it has to register with the Ghana Standards Board (an organization that promotes standardization for the improvement of the quality of goods, services and sound management practices in industries and public institutions in Ghana.) If the firm plans to export goods or import supplies or raw materials, it also must also register with Customs.

Based on our interviews, a savvy entrepreneur with an understanding of the system and perhaps, a few “connections” can successfully navigate the registration process in about two weeks. An inexperienced entrepreneur is likely to be much less successful. Several CEOs reiterated that a single system and a shared database would make the registration process more efficient and conducive.

b. Business Addresses.

An interesting phenomenon exists in Accra (and in much of the developing world); there is a lack of, or inconsistency in, physical street addressing. Since independence, Accra has expanded dramatically in population and spatial extent. Since the government has not employed a viable master plan for urban growth, much of the development has been unauthorized. Many structures, businesses, and homes exist without a readily locatable street address. For example, one of the business we visited has an address on their web site (we’ve “anonymized” as requested) that describes their location using terms of relative geography as opposed to absolute locations e.g. as “a named Villa (or compound), *behind* a major bank on a major road in Accra.” From our experience, it appears that all business mail is delivered to the post office. Problems with the addressing system can make it difficult to confirm the existence of a business compounding the number of problems facing new, or growing, businesses. Banks, already risk averse, are less likely to lend to a firm that they can’t be sure exists, or later, can’t find or contact, should loan repayment issues arise.

c. Personal Identification Numbers/Credit Reports.

Another situation that the average Westerner might not even consider when analyzing developing economies is the value of a number-type identification system such as a Social Security Number in the US. The “New Pensions Act, 2008” (ACT 766) established a uniform set of rules and standards for the administration, and payment of retirement and related benefits for workers in Ghana. According to the Social Security and National Insurance Trust (SSNIT) of Ghana website (www.ssnit.com), all employers are required to register employees under this scheme. Based on our team’s interviews, we are under the impression that this regulation, in practice may not be adhered to by some small businesses. Currently, there is no capability to reliably and accurately track the Ghanaian workforce. Additionally, a reliable individual credit score tracking or reporting system does not exist. Thus, it is exceedingly difficult for individuals and small businesses to demonstrate solid credit. Without a good credit history, the risk-averse banks will not lend to entrepreneurs. The team believes that if the new SSNIT system of Social Security Numbers is accepted and enforced, a major obstacle to the establishment of a credit reporting system will be lifted.

3. SME Access to Finance.

In Ghana, bank financing is virtually inaccessible to most SMEs. We continually heard the mantra that “microfinance loans are not ‘sized right’ for my type of business.” These micro-loans tend to be focused on the “micro-business” that might need capital to buy an initial sales inventory and can re-pay the loan as goods are sold. The businesses we visited have much more ambitious goals and have much longer payback periods. One CEO mentioned that his investments have a planned two-year payback period. Also, microfinance loans with interest rates of 40% or more are not a viable option for a business requiring longer-term capital to grow.

In developed economic conditions, an entrepreneur would develop a business plan and apply for a loan at a commercial bank. However, commercial banks in Ghana (and anecdotally, throughout the developing world) are amazingly risk-averse. Our team was told again and again that commercial banks can’t, or won’t, lend to SMEs. Commercial banks are very pessimistic about “start-ups” and require either, sufficient collateral, or proof of a guaranteed contract for business with a client. Our interviews also indicated that entrepreneurs feel commercial banks are overly stringent in approving a loan request. They require very detailed financial records and documents in order to apply for a loan and if approved, the loan rates are exorbitantly high; 25-30% for a firm that is deemed a quality candidate. This is in an economy where the International Monetary Fund estimates a 2011 inflation rate of approximately 11%.

An investment banker explained that the banks have very little access to 5, 7 or 10-year money. For instance, the longest duration Government Treasury Bond is 5 years.

Banks fund their operations mainly from deposits which can be withdrawn at any time and their customers tend not to tie up money for more than 1 year. So, if banks use deposits to fund loans that are longer in duration, they would have a mismatch between their funding sources and the loans.

When our team inquired about the possibility of pursuing programs designed to encourage and assist business growth offered by major non-governmental and economic development organizations, most of the entrepreneurs turned very pessimistic. It is a common perception that programs sponsored by the International Finance Corporation are focused on assisting larger firms. The entrepreneurs were equally pessimistic about the possibility of pursuing financing from many of the other avenues available such as United States Agency for International Development (USAID), or the Ghana Investment Promotion Center. The common perception is that the process is cumbersome and not worth the effort involved.

Additionally, one CEO stated that organizations such as the African Development Bank or the World Bank worked “top down.” By this, they explained that the money lent or granted from these organizations filters its way down through the government bureaucracy and is finally “given” to commercial banks to lend. As discussed earlier, these banks are risk-averse and make it extremely hard for SMEs to borrow. (Note: the team will follow-up to confirm this described flow of funding.)

The team also inquired about the local environment in order to determine if there are any active venture capitalists or angel investors. After all interviews, we came to the conclusion that if there are individuals or firms, they are not very active and are not well known. There is limited interest from private equity firms but there also appears to be a “mismatch” in goals and objectives. Private equity firms tend to target larger deals; in the case of a developing economy, a deal less than \$20M is less than desirable because of the administrative and oversight costs. There is also the belief (probably correct), that deals smaller than this size will require more guidance and mentoring from the Private Equity firm. This additional assistance which can range from establishing administrative procedures to reconstructing accounting records increases costs, making the deal less attractive. It can also be assumed that, in most cases, a smaller deal carries a greater element of risk because the firm is not as well established.

Interestingly, the majority of the firms we met with in Accra basically “boot-strapped” and initially self-financed. A few of the firms were fortunate to have access to start-up capital from a previous firm or venture. In some cases, the new venture emerged from a prior family business. The team was especially impressed that most of the firms had little, or no, outstanding debt. Growth has generally been fueled by retained earnings. These CEOs are running lean organizations and making wise business decisions under austere operating environments.

It is also readily apparent that these five firms epitomize what economic development experts call the “missing middle.” These firms have been innovative and

savvy in their initial growth, however, now that they are poised to potentially experience explosive growth; their access to capital is extremely limited.

4. Changing Attitudes/Expectations of Entrepreneurs

The team had previously been told that in cultures like that found in West Africa familial obligations make entrepreneurs' lives challenging. The cultural definition of a family includes the extended family and that this extended family had great influence in the disposition and growth of a business. Forming partnerships and selling portions of a business was a cultural abhorrence and that members of the extended family believed that they had rights in determining the course of a business even if they may not have much day-to-day interaction. One of our interviewees disagreed with this assessment and told us that family obligations put pressure on business owners primarily because the family expects that the 'successful' entrepreneur will give them money for their children's school fees, medical bills, help them with their rent payments etc.

In the course of our specific interviews, we found little evidence of familial pressure. The majority of the CEOs we spoke with were very receptive to exploring partnerships, selling equity to outside investors, and even, in one case, declared that his ultimate goal is to take the company public and list it on the Ghana Stock Exchange. The team surmises that the firms that we visited might be anomalies to the cultural norms that we had expected. The CEOs came from upper middle-class families and a majority attended university in the US or had spent time in the US. We suspect these cultural norms are still in place in firms that are much smaller and more traditional such as small retailers or manufacturers.

One unexpected aspect of our visits was discovering a culture of social consciousness. The CEOs passionately believed that as a result of their company's business success they were improving Ghanaian society. They actively sought out native Ghanaians who demonstrated potential, hired them, and developed them in a business culture that encourages professional growth. The SMEs are truly passionate about growing the nation and the nation's human capital.

5. Social Capital

While the importance of social capital in Ghana was discovered during a previous visit, it was strongly reinforced on this visit. The ties that are formed in Secondary School (after a pupil finishes basic school, he/she may enter Senior Secondary Schools for a three-year course, which prepares them for university education-the most competitive of these are boarding schools which require entrance exams.) are amazingly strong; the team likened them to the types or relationships formed during the West Point experience. Time and again, interviewees remarked how a "mate" had helped on a project or were a key contact necessary to get something accomplished.

6. Infrastructure

In order for a business to register, the business is required to provide a physical address. There appears to be a shortage of appropriate office space and manufacturing facilities available to the new entrepreneur. A few of the businesses we visited were actually operating out of personal residences. These residences tended to be compounds surrounded by a security wall not unlike those commonly found in the Middle East or Central America. An additional challenge to establishing a new business is the fact that most commercial landlords demand one or two year's rent in advance.

Several of the CEOs also commented that the infrastructure was a hindrance to growth. The transportation network in, and around, Accra do not have the capacity to handle the daily traffic and a simple trip or supply delivery can encounter numerous unexpected delays. Recently, the World Bank financed construction of perimeter highway to alleviate traffic.

In some cases, the initial impression that a business presents to a potential partner or investor can be less than desirable. In a few cases, the team was concerned that it was at an incorrect address of the surroundings, such as an unpaved road or the presence of livestock. However, the team always found a vibrant place of business right around the corner. This astonishing contrast is common in Accra as in other developing cities where old and new cultures coexist.

7. Government

A majority of the CEOs expressed frustration with the government's business development efforts. They felt that the government could do a much better job of promoting "Ghana's story;" a stable democracy, with a young and well-educated population. They stated that the government focused too much on developing and incenting the export market while neglecting the expanding domestic consumer market. Overall, they seemed satisfied that the government was becoming more efficient and working on decreasing corruption. The only exception that we heard concerned the Customs Division. Several CEOs mentioned that it is a very corrupt organization and that the import and export processes are maddeningly slow and require special brokers and payments to appropriate individuals. This particular process is a huge obstacle for businesses that require parts and materials that are produced in Europe and the US.

Conclusion and Way Ahead:

The team departed Accra with an incredibly optimistic feeling about Ghana's prospective economic future. The entrepreneurs which with we met were amazingly passionate about their endeavors and are making a difference at the "grassroots" level.

At the same time, the Ghanaian government has made impressive improvements in the business establishment process. The major obstacle to improving the plight of the small entrepreneur continues to be access to the capital necessary in order to grow an innovative business beyond the \$2-3 million revenue range. Additionally, the nation's infrastructure is also a major impediment to the growth of SMEs.

Based on the lessons and insight gained from this extremely fruitful fact-finding trip, the team will next create a proposed quantitative and networked-based framework that will effectively model the entrepreneurs' business development process and capture the limitations and constraints imposed by the current process. Based on this model, we will then be able to empirically analyze these challenges and proposed solutions.

APPENDIX: Interview Notes

AHR

On 22 June 2011, a team of researchers from the Network Science Center at West Point met with the Chief Executive Officer (CEO) of AHR, a socially conscious human resources firm that offers a range of services including Recruitment, Organizational Development, Talent Management and Professional Development of individuals, Human Resources Technical Assistance and Business Advisory services. In the future, AHR hopes to provide services that cover areas including Employment Law, Social Marketing, Research and Development, Social Entrepreneurship and Public Sector Branding to its clients.

AHR fits the definition of a Small and Medium Enterprise as defined by USAID; they have 6 employees and 4 active partners. The CEO is a woman in her mid 30s with multiple degrees from numerous US universities. Her highest degree is a PhD from a well-known East Coast University.

The team met with the CEO for several hours and had a wide-ranging discussion. The following subjects effectively synthesize our findings based on this meeting:

Government inefficiencies

Physical street addressing: A major concern that the CEO mentioned a few times and spoke about at length is the lack of / inconsistency of physical street addressing, which compounds a number of problems facing businesses. Since the government has not had a viable master plan for urban growth, many structures, businesses, homes exist without a readily locatable street address. This makes it quite difficult to track individuals, small businesses, etc. for credit purposes, to conduct business by mail, etc. The government has attempted to resolve this deficiency, but the numbering matrix is inconsistent and unreliable.

Individual identification number: Likewise, the CEO told us that no social security number-type identification system exists to reliably and accurately track the Ghanaian workforce. Like the physical address problem, the Ghanaian government had tried to remedy the problem, and the people have tried to cooperate, but bureaucratic inefficiencies have prevented any system from going into full effect. Until the 1990s, anyone wishing for a driver's license had to go to Accra to apply in person; this centralized inefficiency has since been resolved. She suggests that a similar system be employed for a national census / ID number. Voter registration cards and drivers licenses are the current forms of national identification.

Credit reports non-existent: In part because of the lack of government oversight, no reliable individual credit score tracking/reporting system is available. Thus, it is exceedingly difficult for individuals and small businesses to demonstrate solid credit

Regulatory Requirements and government practices are a deterrent to entrepreneurship

Business Registration: The CEO explained there are many Ghanaian Government regulatory requirements, which act as major deterrents for prospective entrepreneurs. Ghanaian law dictates that one must register their business with the General Registrar before opening. This, however, is a massive deterrent as the process takes an immense amount of time, if it is ever completed. Documents must be submitted to the central office in Accra, with no satellite offices throughout the rest of the country. The difficulty travelling through the country would nearly prevent citizens not living in the Accra area from submitting their paperwork. The Registrar also habitually misplaces paperwork, among other commonalties to a bureaucracy. Payments for the form, registration, and the auditor are demanded, a total sum of 730 Cedis (\$470), 7 months wages for the average Ghanaian (our research team's estimation). The applicant must also have a designated office space to register, and a Registrar employee must inspect this space. This long, complicated, and expensive process is a massive deterrent to prospective entrepreneurs. Many do not register their business until well after they have begun the business, if at all.

Hiring Requirements: In order to hire a new employee, the business must also make the periodic Social Security and National Insurance Trust (SSNIT) payment (similar to payroll taxes in the US) to the centralized office in person, another cost and deterrent for businesses. The process is inconvenient and the regulations cause much difficulty for a prospective entrepreneur in Ghana.

SME Access to Finance in Ghana

Based on our interview with the CEO of AHR, we identified the following challenges that Small and Medium Enterprises (SMEs) face in accessing finance in Ghana:

"Start-up" Capital: As soon as AHR established the business they, essentially, had outgrown the types and amounts of loans that microfinance firms typically supply. The CEO stated that microfinance loans are not "sized right" for her type of business. Additionally, AHR's savvy Chief Executive Officer was not interested in paying the high interest rates, typically more than 40%, which these types of firms charge.

AHR was initially funded by capital that each of the four partners invested in the business. They did not attempt to access any additional start-up capital. The CEO preferred to grow the business utilizing retained earnings in order to grow the business organically. Additionally, there are specific cultural and business norms that present

challenges to entrepreneurs in Ghana that would not be faced by entrepreneurs in United States or Europe. For instance, it is a common requirement that a small business is required to pay rent upfront for a year or more.

“Post Start-up” Capital: In the United States or Europe, a commercial bank loan might be the typical next step that an SME firm like AHR might pursue in order to access capital required to grow the business. However, in Ghana banks are very risk averse and their loans typically average around 40% interest rate. Inflation in Ghana currently runs between 10-15% so, despite, this fairly high inflation rate, these loans are not attractive to the typical SME owner. Additionally, commercial banks in Ghana also require substantive collateral-making commercial bank loans almost impossible.

There is a very small community of domestic Venture Capital and Private Equity Investors in Ghana. AHR’s CEO stated that these types of firms are really more interested in larger firms (and larger deals) because there is a greater potential for a larger return with this type of deal. She also stated that because of her strategic goal of building a “socially conscious” firm (to be discussed in more detail) she would rather not surrender control or decision making to an outside entity that would likely force her to focus efforts on profits and financial efficiencies instead developing people and businesses.

This enlightening interview clearly demonstrated that concept of the “Missing Middle” that is evident throughout a large amount of current economic development analysis. AHR is too large for micro-finance, not eligible for commercial bank loans, but too small for funding from the “big players” in the industry. The efforts of an extremely bright CEO and staff have allowed the company to grow despite these challenges to accessing capital.

Social entrepreneurship and corporate social responsibility consciousness (CSR) is embedded within the business. The business website greets customers with the fact that AHR is a socially conscious human development firm based in Ghana. AHR prides itself with helping its clients to align their goals with these mentalities. Part of its core values, “social consciousness that puts the society wellness at the forefront and looking to bring positive change.” It is one of the reasons the CEO steers away from private equity in order to avoid compromising the social commitment with a tendency with equity to emphasize on efficiency and profit making. Dealing with key organizations and enablers to the specific business, the Longevity project provided the space for the business initial operational area. The business has since moved from their initial location. There is potential with funds such as the Acumen Fund who are working on their West African existence focusing on Ghana and Nigeria (Acumen). Nevertheless, the AHR CEO highlights that more common non-financial Business and Investment agencies such as GIPC and AGI are failing to target the SMEs.

Growth/Expansion Plans.

When asked what her future vision was for her business, the CEO said she did not have an exit plan because she wanted to expand her SME across the continent with satellite offices. She said she is wary of expanding into North Africa because linguistic and cultural barriers are too profound. She wants her business to become “the place to go” for human capital development issues in sub-Saharan Africa. She notes a growing trend in “social entrepreneurship.”

Some difficulties she foresees when it comes to expansion are the qualifications of the workforce, the cultural resistance to establishing partnerships outside of family/friendship connections, and the lack of reliable/official data. Additionally the CEO, expressed concern about the education of the Ghanaian people, particularly in the areas of written communication and work ethic. She stated that the internships available to Ghanaian students are ineffective since they are treated like “coffee boys” when they should be learning work practices /ethics. Grooming and coaching new employees is thus a major burden for employers. When asked about the lack of “exit strategies” for businesses, she claimed that it is a problem in Ghana “to a dangerous degree.”

She also told us that owners “foolishly hold on to their businesses” for too long, which she attributes to a “nomadic community” sense of ownership (i.e., herds of cattle, etc.). She said that partnerships outside of familial/ friendship connections are quite rare, and Ghanaians bristle when the topic of “partnership agreements” are proposed. She also notes too much emphasis on individual possession of business ideas (“too much ‘it’s mine’” attitude).

Additionally, the CEO stated that there is a lack of reliable “industry data,” which she sees as a major stumbling block. For instance, it is nearly impossible to find comparative data, such as average salaries, etc. She also mentioned that there is a “brick and mortar” mentality in which Ghanaians feel a need for actual office space rather than using a laptop as a virtual office; therefore, small business startup costs are unnecessarily inflated. On a side note, the CEO has a built-in safety net for her business since she has her additional occupation as a university professor.

DC

On 23 June 2011, a team of researchers from the Network Science Center at West Point met with the Chief Executive Officer (CEO) and the General Manager (GM) of DC, an advertising firm that leases land and erects advertising billboards throughout

the country of Ghana. The firm evolved out of a previous advertising firm that bought block space at a discount from radio and television stations, newspapers, and magazines and then sold it to advertisers. They officially began business in 2006 with a business model of focusing on “high end” billboards (top quality) and “blue-chip” advertisers. The firm is the third in size in Ghana but the leader in “big billboards” and counts all of the major mobile phone providers, large breweries, and famous soft drink manufacturers as clients.

The firm builds the billboards specifically for the client and it costs them approximately \$40-45,000 (US) for each structure. They currently outsource the construction and production of their billboards (he mentioned that they will soon begin to print the fabric material in house with high-end printers) and the CEO claims that they get a Return on Investment (ROI) in the 40-50% range. He told us that his payback period is about 2 years for each structure and that they have not lost a single client since they started business. The company had approximately \$6,000 in revenue their first year and the CEO told us that they will earn about \$3M this year.

DC fits the definition of a Small and Medium Enterprise as defined by USAID; they have approximately 16 employees and their current estimated annual revenue is approximately \$2M (US). The CEO is a man in his mid to late 30s who is a University of Accra graduate and also attended a prestigious secondary school in Ghana.

The team met with the CEO and GM for several hours and had a wide-ranging discussion. The following subjects effectively synthesize our findings based on this meeting:

Government inefficiencies, practices, and regulatory requirements

Business Registration: The CEO confirmed the business registration process that we had heard during our previous interview. He also emphasized the fact that it is a requirement that the business has a “physical office” location. He did not feel that the process was as much of a deterrent as the CEO of AHR; he gave the sense that he accepted the process and knew how to operate within the bureaucracy.

Social Capital: The CEO confirmed that it was potentially difficult to properly register a company with the General Registrar. He explained however, that it was important to have “government connections” in order to ensure that the process progressed “smoothly.” The CEO implied he had “mates,” fellow alumni from both his secondary school and university who work as civil servants who assisted him in ensuring that his registration application was not lost or delayed. He implied that as long as the process is understood and the applicant knows what is required in order to ensure a quick registration, it is not a major obstacle to establish a business.

Hiring Requirements: The CEO confirmed the requirements a business must also make the periodic Social Security and National Insurance Trust (SSNIT) payment (similar to payroll taxes in the US) to the centralized office but he seemed much accepting of the

requirement and reemphasized that networking is incredibly important in order to “work: the bureaucracy. He also mentioned that many people “go around” the system but did not elaborate.

Property Rights. The “billboard business” has rather unique requirements. Billboards require land to “stand on”. In Ghana, the government owns all land ten feet in front of structures that abut roads. DC leases land from the government to use in order to build the foundations for their billboards. In order to lease this land the company has to negotiate with the municipal office that oversees the particular area. The CEO mentioned that there are 5 offices alone in Accra and each which handled a different municipality in Accra. This decentralized structure gave DC a great ease of access to the government than the CEO of AHR. In order to lessen the impact of the addressing problem in Accra, the CEO set up his office in a district with the most planning and organization, so the government, banks and clients would be able to find him. Interestingly, the CEO also mentioned that the lack of a standard addressing system in Ghana was an obstacle to his business as well.

SME Access to Finance in Ghana

Based on our interview with the CEO and GM of DC, we identified the following challenges that Small and Medium Enterprises (SMEs) face in accessing finance in Ghana:

“Start-up” Capital: The CEO stated that the vision of the firm started on a golf course in South Africa after a discussion with an Indian businessman. The firm started with a 6,000 Ghanaian Cedi contract and the CEO sold his high-end Sport Utility Vehicle in order to gain the required capital to get the business off the ground. The CEO told us that he wanted to “lead by example” and went six months without a salary

The CEO and GM laughed when we asked about the possibility of utilizing micro-finance options as a potential option for start up capital and they reiterated what we have heard previously. He stated that the sizes of micro-loans are suitable for very small vendors and the loans typically range from \$500 to several thousand dollars. This amount is entirely too small for the capital requirements of a firm like DC when they initiated operations. Additionally, the CEO and GM were not willing to pay the exorbitant rates that micro-loans entail-effectively 40%+ a year. Micro-loans are designed to be short-term loans, typically to purchase initial inventory for smaller vendors and retailers. A firm like DC, which has a payback period of approximately 2 years on the cost of a billboard structure, has a requirement to borrow larger amounts of capital for a longer period than micro-loans are designed for. Additionally, the CEO and GM mentioned that micro-finance firms are ruthless in their collection methods-they equated them with loan sharks.

When asked about the potential of a commercial bank loan, they reiterated what we had heard earlier. Commercial banks are very pessimistic about “start-ups” and require

either, a large amount of collateral, or proof of a guaranteed contract for business with a client. They also stated that the commercial banks are overly zealous requiring very detailed financial records and documents.

Additionally, the CEO and GM were not interested in pursuing financing from many of the other avenues available such as United States Agency for International Development (USAID), the World Bank's International Finance Corporation (IFC), or the Ghana Investment Promotion Center (commonly known as GIPC), (<http://www.gipc.org.gh/home.aspx>) . They stated that the GIPC was structured to encourage and facilitate foreign investment but was not much assistance for new and growing domestic businesses. Additionally, there's a parastatal organization call Eximguaranty(<http://www.eximghana.com/about.php>) that was created to assist in strengthening the links between SMEs and financial institutions but their focus is on industries and businesses that are primarily export goods. (an major insight from trip)

Additionally, they stated that organizations such as the African Development Bank or the World Bank worked "top down." By this, they explained that the money that is lent or granted from these organizations filters its way down through the government bureaucracy and is finally "given" to commercial banks to loan. As discussed earlier, these banks are extremely risk-averse and make it extremely hard for SMEs to borrow. (Note: the team will follow-up and confirm this described flow of funding.)

According to the CEO and GM, Venture Capitalists and Angel Investors are virtually non-existent in Ghana. They also mentioned that the Venture Capital "model" is not attractive to Ghanaian culture. The team had heard similar comments on a previous visit to Ghana-there is a familial aversion and almost a cultural "shame" to give up control of an entity that is seen to be an asset that belongs to a traditional Ghanaian extended family.

"Post Start-up" Capital: As the firm grew, they actually did borrow capital from a commercial bank. In November 2008, they borrowed \$500,000 from a well-known South African Bank that operated throughout Sub-Saharan Africa. The firm had several contracts in hand, completed the lengthy application documents, and had to put up \$100,000 as security. The rate on this loan was every high by US standards. At the time, the Ghanaian equivalent of the "prime rate" was approximately 25% and the firm had to pay a risk premium based on the underwriter's perceived risk of the transaction. The GM told us "getting a loan is like getting a visa to travel to the US!" (It is very competitive for Ghanaians to secure a visa to the US.)

For the second day in a row, our interview clearly demonstrated that concept of the "Missing Middle" that is evident throughout a large amount of current economic development analysis. DC was not a good candidate for micro-finance, not eligible (initially) for commercial bank loans, but too small for funding from the large financial institutions. The efforts of an extremely bright and dedicated CEO and staff have allowed the company to grow despite these challenges to accessing capital.

Growth/Expansion Plans

The CEO told us he doesn't want to increase his customer-base, but instead he would like to increase his current customers' exposure. He wants to maintain his advantage in "big boards" with "blue-chip" companies and in order to this, he must ensure that his customer service is of the highest quality. They are also looking to expand into foreign markets such as Liberia, Ivory Coast, Rwanda, and Sierra Leone. However, foreign government requirements that he hire a prescribed number of local employees will hamper his progress. DC will have to bring foreign workers to Ghana for training; incurring additional business expense. Nevertheless, the CEO says "moving it [DC] out of the country is the way to go."

DC also has immediate plans for expansion of their business in the print arena. As stated, they currently outsource construction of the structures and printing of the fabric. They have recently acquired advanced Hewlett Packard printers from South Africa and the firm's leadership believes that moving this function "in-house" will help increase revenue from \$2 million/year to \$3.5 million/year. As a result of their experience building the business, the company's leaders have decided to begin expanding into real estate and construction.

The CEO also says that he is receptive to outside investors-he is currently looking for partners- as long as he maintains control and autonomy of the business. There is a lot of "sweat equity" invested in this business so his position is very understandable. Additionally, the CEO has a very strong bond with his employees and our team could sense the responsibility the CEO shouldered in ensuring that his team was "taken care of."

Social Responsibility

The CEO is very conscious of "social responsibility." Like the CEO of AHR, this CEO believed that the success of his small and growing firm was making a difference in the economic development of the nation of Ghana. Interestingly, he mentioned to us that he provides billboard space for free to groups such as churches that are advertising events such as revivals, which are amazingly prevalent in Ghana. He also mentioned that some of his construction business would likely focus on assisting local governments in building schools and other more "altruistic" projects.

Society

The conversation later shifted to Ghanaian society. Our team was interested in learning more about the social distinctions that are the framework of Ghanaian society. The CEO explained that, after independence, Ghana was divided into 10 regions and these regions were not based on traditional tribal areas and divisions. This regional organization forced tribal interaction and "mixing." This "mixing" resulted in more

national cohesion and developed more of a “national” vs. “tribal” identity. Consequentially, he told us that tribal legacy is not very important in business but it still persists in politics.

He also told us that social classes are much more important and a large portion of this class structure derives from attendance at a secondary school. These boarding schools have extremely competitive entrance examinations and the bonds formed at these schools are amazing strong and continue for life.

ESG

On 24 June 2011, a team of researchers from the Network Science Center at West Point met with the Chief Executive Officer (CEO) of ESG, a business and IT-consulting and technology firm based in Accra. The firm is currently focusing on Contact Management Services (call center with numerous services) and Back Office Management.

The CEO is a self-described “serial entrepreneur” and has been involved in this particular area of business since 2004. He attended college in the US and holds an advanced degree from a US university. His father owned a construction supply and aluminum roof and siding business and he gained a great amount of experience by assisting with the family business.

After spending quite a few years in the US, the CEO returned to Ghana and secured some consulting business with the Ghanaian government and a Nigerian IT company. The CEO then picked up a large IT contract with the Ghanaian Central Bank. The CEO stated that the project “failed” but the relationships did not.

After this engagement, he refocused his firm as an Oracle solution provider and further enhanced his firm by developing enterprise architecture and solution-systems integration capabilities. Additionally, he partnered with NorTel to execute a “proof of concept” national fiber backbone in Ghana.

Based on this experience, the CEO became aware of the “value of voice” and determined that Customer Relationship Management is at the top of the “value chain” and decided to move into this sector. His goal for his firm is to be a “call center leader.” His first customer was Tigo: <http://www.tigo.com.gh/>, one of Ghana’s leading mobile phone service providers who agreed upon a three-month pilot period. There was a major leadership change at Tigo at the end of pilot period but the CEO was able to secure the entire pre-paid customer service business based on their performance. The firm essentially became an integrator between customer service and marketing.

The company now has the business for a major utility, some health care providers, as well as a bank. The firm is very flexible and its Information Technology Systems give them the ability to provide outsourced billing for customers. His staff also has the capability and skills to consult for companies in the areas of Information Technology and customer service.

ESG fits the definition of a Small and Medium Enterprise as defined by USAID; they have approximately 25 employees and their current estimated annual revenue is approximately \$3M (US). The team met with the CEO for several hours and had a wide-ranging discussion. The following subjects effectively synthesize our findings based on this meeting:

Government inefficiencies, practices, and regulatory requirements

Business Registration: The CEO confirmed the business registration process that we had heard during our previous interviews. He told us that you can register a business in about 2 weeks and that the process is greatly improved. He said that “you used to have to work the hallways” but now there is a new sense of urgency in the Registry and that the process is more electronic and less paper-based. He also gave the sense that he accepted the process and knew how to operate within the bureaucracy. The CEO mentioned a step in the business registrations process that we had not heard of prior to this meeting. He told us that a business needs 2 documents before you can commence business. The first is the Incorporation Document and the second is the Certification for Commencement. He stated that you really can’t begin operations until the second document is completed because that document generates a Tax Identification Number. He stated that these documents used to be completed at the same time but that under the new process this is not true.

Communications Requirements. The CEO mentioned that an information technology must also get all communications equipment certified and authorized by the National Communications Authority. He stated that this regulation really applies to frequency management and security issues and implied that this authority was a bit broad and inhibited growth of IT businesses. This has been an additional bureaucratic hurdle but he mentioned that this process has also been streamlined over the past 10 years.

SME Access to Finance in Ghana

Based on our interview with the CEO of ESG, we identified the following challenges that Small and Medium Enterprises (SMEs) face in accessing finance in Ghana:

“Start-up” Capital: ESG is the successor of a business that basically was “three guys in a basement.” They received their first contract based on a previous relationship and all of the start-up capital was basically “rolled over” from one of the CEO’s previous ventures.

Similar to the other CEOs that we interviewed, the CEO was pessimistic about commercial bank loans, venture capital-type funding, and loans from economic development organizations. He told us that commercial banks are more interested in short-term loans that are more suitable for traditional traders and merchants who need short-term funding in order to purchase merchandise. The banks are too risk averse and conservative to loan to a business that needs longer term capital in order to establish their business like his. He also told us that he had met with several of the small venture capitalists in the Accra area but they didn't understand his business or the industry. He also told us that in his opinion, organizations such as the International Finance Corporation (IFC) move too slow and are also very risk averse.

The CEO did mention that he takes advantage of some duty exemptions that the Ghana Investment Promotion Center (GIPC) (<http://www.gipc.org.gh/home.aspx>) has established for importing goods. He also told us, however, that the Ghana Customs, Excise and Preventive Service (CEPS) and the GIPC policies were not synchronized so that the importation of this required equipment was still a hassle. He also mentioned that the CEPS is an organization that mainly focused on duty collection and not as concerned about setting the conditions for economic development. Hence, this organization is slow, bureaucratic, and rife with corruption.

“Post Start-up” Capital: The firm has reinvested revenues from existing contracts in order to fund additional growth. This was a common theme that we heard in many of our interviews in Accra. For the third day in a row, our interview clearly demonstrated that concept of the “Missing Middle” that is evident throughout a large amount of current economic development analysis. ESG was also not a good candidate for micro-finance, not eligible (initially) for commercial bank loans, but too small for funding from the large financial institutions. The efforts of an extremely bright and dedicated CEO and staff have allowed the company to grow despite these challenges to accessing capital.

Growth/Expansion Plans

The CEO told us that his strategy at this point if he was in the US would be to partner with another firm in order to fuel his growth. He was attracted to the idea of establishing himself as a subcontractor to a larger firm. As it stands now, he believes that he will acquire multiple additional contracts in the next 18-24 months and he hopes to strike a private equity deal. His eventual goal is to execute an Initial Public Offering (IPO) on the Ghana Stock Exchange. He has no reservations at all about losing autonomy of the company, saying, “take my company!” He has other opportunities and ventures he is anxious to pursue. In short, he is ambitious and sees great promise for eServices in the future, both on the national and international levels.

The CEO told us that his current annual revenue is approximately \$3M and that he estimates that he would need an additional \$2M in order to properly execute his expansion plans. The CEO believes that midcap companies will keep his revenues healthy, but he “hopes to pick up overflow” from other businesses.

He says he wants to establish a “big” call center facility for the English-speaking world, and he feels there is a vacuum due to resistance to India and the Philippines’ call center shortcomings. He feels there is “push back” against their approach and believes that Ghanaians are better able to understand American accents and dialects and have a better awareness of American culture and perspectives. He encourages his workers to be conversant with contemporary events in America, and he conducts “training to that effect.” He says that Ghanaians have “the ability to morph” to respond to customer needs.

He absolutely wants to expand outside Accra: Cape Coast especially, but also north of Kumasi, where he says the accent is even less pronounced and power and connectivity are already in place. He also would like to expand to cover the French-speaking West African nations, but he wants to train the personnel and service the calls from here in Ghana as opposed to opening new call centers in these neighboring countries.

He also mentioned the phrase “labor arbitrage” numerous times. By this he meant that he could hire a better educated (typically university graduates) customer service representative and that the current wages in Ghana for this type of employee was lower than elsewhere in the world.

Social Responsibility

The CEO is also very conscious of “social responsibility.” He told us that he was part of a movement that “can transform the country bite size at a time.” He was extremely proud of the quality of the local labor pool and pleasantly surprised by the people graduating from the Ghanaian schools. He told us that he felt that he was “not a manager, more of an inspirer” and that his leadership focus was on “training and empowerment.” Interestingly, he told us that he utilized the balanced scorecard methodology, a performance measurement framework developed at Harvard University that adds strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance, (<http://www.balancedscorecard.org>) , in order to assess his organization.

Like the CEO of AHR, this CEO believed that the success of his small and growing firm was making a difference in the economic development of the nation of Ghana. Interestingly, he mentioned to us that he provides billboard space for free to groups such as churches that are advertising events such as revivals, which are amazingly prevalent in Ghana. He also mentioned that some of his construction business would likely focus on assisting local governments in building schools and other more “altruistic” projects.

Encouraging Business Growth and Economic Development

The CEO also voiced his concerns about obstacles to economic growth in Ghana. He firmly believes that the Ghanaian government needs to bring more positive international attention to Ghana’s economic potentials, much as Kenya has done recently. For

instance, Ghana has three times the fiber optic capacity of Kenya, according to the CEO, but Kenya is receiving “all the buzz.” He also believes that Ghana should develop facilities akin to Egypt’s “cybercity” since Ghana has the connectivity, talent, but not the “brick and mortar” facilities that can woo a discriminating international customer. He emphasized the political stability as a key selling point and believes that the government can do more to set up incentives for small businesses. He also voiced concern about infrastructure as a major constraint to business growth. He illustrated these concerns by pointing out that his high tech firm sits at the end of a dirt road in the middle of urban Accra. It’s not a favorable first impression, until you open the door into his businesses headquarters and find a thriving innovative small business.

PPL

On 27 June 2011, a team of researchers from the Network Science Center at West Point met with the Chief Executive Officer (CEO) of PPL, Ghana’s leading Industrial Electrical Engineering and Automation firm. The firm specializes in designing and installing industrial automation schemes, sales and support service, and automation training focusing on Programmable Logic Controllers. Their main customers are in the mining, food and beverage, consumer manufacturing, energy, and water sectors. In the future, PPL plans to expand throughout Ghana and enter into other West African markets.

PPL fits the definition of a Small and Medium Enterprise as defined by USAID; they have 31 employees and in 2009 their estimated annual revenues were \$1.2M (US); in the 2010 their estimated revenues grew to \$1.7M (US).

The CEO is a man in his mid 30s with an engineering degree from the Kwame Nkrumah University of Science and Technology in Kumasi, Ghana. He told us that he comes from a family of entrepreneurs (his parents were teachers who ran several businesses on the side) and even had a thriving business while attending university building amplifiers and speakers. He started one business after college that went bankrupt and then he began working for NCR, maintaining Automated Teller Machines in several of Ghana’s regions. At the time, a European Consumer Goods manufacturing company in Ghana was recruiting engineers to address potential Y2K issues with automation equipment at their facilities in Ghana and he transferred. After several years at that firm, he sensed an opportunity. Whenever there were technical issues with automation equipment the company would bring in technicians from Europe or the US to address them. The CEO knew that he had the expertise and believed that he could train local workers to become technical experts. In 2003, he left the European manufacturing company and started PPL.

The firm currently has 4 branch offices; one of these branches is a sales office at an informal parts and repairs market in downtown Accra. The firm has approximately 150 customers of which, 60 are 'regulars.' 18 of these companies contribute the majority of the firm's revenue. 3 mining companies are what he described as the "main clients." Additionally, the CEO has a partner who holds 50% of the company's equity.

The team met with the CEO for several hours at the company's headquarters, which is located on the east side of Accra and housed in a former residential compound one "block" off of the major commercial artery. We had a lively and wide-ranging discussion. After our meeting we toured his administrative facilities and had the opportunity to tour his manufacturing facility. The following subjects summarize the main discussion points covered in our meeting.

Government procedures

Business Registration: The CEO told us that this process has greatly improved. He explained that it used to take about a month to register a firm and now takes about a week. Procedural, a business requires two certificates: an Incorporation Document and the Certification for Commencement. These initial certificates are supplied by the Registrar General's Office. This office has had a reputation for inefficiency and lost paperwork but some aspects of this process have been automated now. For instance, the office used to have to comb through paper registers to determine if the name has already been registered; now, they can simply query a database. After registering with the Registrar General, the CEO told us that the firm has to register with the Ghana Revenue Authority. This is another example of an improvement in the process; this agency is comprised of two formerly separate organizations: the Internal Revenue Service and the Value Added Tax Service. Firms can now register at a single location with the tax authorities. The CEO told us he was also required to pay an initial tax on his start-up capital at this point.

After this step, the company has to register with the Ghana Standards Board (an organization that promotes standardization for the improvement of the quality of goods, services and sound management practices in industries and public institutions in Ghana.) if they will be manufacturing goods. The firm also has to register with Customs if imports or exports will be required.

The CEO told us that he was satisfied with the conduct of the process but mentioned that a single system and a shared database would make the process more efficient and conducive to registration.

Customs.

All of PPL's parts and supplies are produced overseas; therefore, Ghanaian Customs plays a major role in the CEO's business. He voiced his frustration with this particular organization. He told us that they have the reputation for being the most inefficient and corrupt arm of the Ghanaian government. He told us that it takes approximately 2 to 3

weeks for an item to clear the port. This is if all documentation is properly prepared; if there is an issue, it will take much longer. He also gave us an example that he can order an emergency part and it can be delivered by overnight courier to the airport but can still take 2 weeks to clear customs. He has been so frustrated by this issue that he has outsourced all importation functions to a specialty firm.

SME Access to Finance in Ghana

Based on our interview with the CEO of PPL, we identified the following challenges that his firm faces in accessing finance in Ghana:

“Start-up” Capital: Due to the nature of its business, PPL requires a large amount of parts and supplies to be held in inventory so that can quickly manufacture their customized equipment. The CEO explained that even with a decent business plan that no commercial bank in Ghana will loan an entrepreneur money unless they have a previous “track record” and put up a very large amount of collateral. He explained that the interest rate on a loan would equal his profit margins, not making it a very wise business decision. Because of these conditions, the CEO and his partner self-financed their initial start-up capital. The CEO continues to grow his business through retained earnings.

Other Financing Opportunities:

Microfinance. The CEO echoed the same themes heard previously. He stated that microfinance financing is not attractive. The typical microfinance loan is not “sized right;” they are simply too small for a firm that requires a larger amount of capital to initiate operations. The CEO also reiterated that microfinance loans are more appropriate for smaller businesses that need short-term capital for a small commercial shop inventory and the loan is repaid quickly. For longer-term loans the rates are simply too high.

Non-Governmental Organizations. The CEO told us that he had not actively pursued funding from organizations whose functions include providing commercial loans. He stated that he felt that dealing with organizations like the African Development Bank or the international Finance Organization was a waste of his time. He told us that his perception was that these organizations are overly bureaucratic and the process of attaining a loan is very slow. The CEO also stated that he found it challenging to find organizations that might assist him with financing; he was busy running his business and didn’t have time to search. However, during the course of our conversation, he mentioned that he has contacted DANIDA, <http://um.dk/en/danida-en/> an organization from the Danish Ministry of Foreign Affairs that helps establish partnerships between companies in emerging economies and Danish firms.

“Post Start-up” Capital:

The CEO was amazing optimistic about his firms potential for growth and he has quite ambitious plans for expansion but voice his frustration that he's had challenges getting potential investors interested. He insinuated that that a majority of people in Ghana with capital to invest are not sophisticated enough to understand his business, its capabilities, and how it creates value.

The CEO has aggressively marketed his firm's capabilities and is rapidly expanding its business. The company has expanded beyond Ghana into Nigeria and Liberia and has its sights set on Ghana's newly established oil industry. In order to support this plan, he would like to expand his production facility and hire new engineers. He estimates that he requires \$2M in capital to support his next phase of expansion.

Infrastructure

The CEO spent quite a bit of time discussion issues with infrastructure in Ghana. He stated that land acquisition is a big challenge. It is very expensive to procure land that is "problem free" due to the lack of a long-standing system of deeds and titles. The lack of this system results in habitual property rights issues. The CEO told me that a lot of businesses set up in old family compounds in residential areas because the prices are affordable.

When asked about some of the government sponsored industrial areas, called "Free Zones," the CEO stated that government acquires the land from local landowners and then businesses have pay a fairly large fee to move in. Additionally, he told us that the "Free Zones" are focused on encouraging businesses to export goods. The CEO told us that firms operating in these "Free Zones" have to export 70% of their goods and his business is focused on the domestic market, ruling out this option.

Due to the nature of the CEO's business, basic infrastructure such as power, roads, and security are vital. During our tour of the facility, the team was shown a large back-up generator that the CEO told us cost approximately \$50,000. We also noticed that extensive security measures were in place at the facility including a formidable wall and fence combination. The facility is located on a dirt road off of a paved side street. The nearby main thoroughfare is congested with trucks and cars from Ghana's booming economy. The CEO told us that he believed that the road infrastructure is the number one issue facing economic development in Ghana.

Human Capital

The CEO explained that one of his biggest challenges is accessing quality employees. He told us that majority of his employees are university graduates but due to the specialized work, they still require an extensive amount of training. He typically runs advertisements in local newspapers and then brings in potential employees for an aptitude test and oral interview. Additionally, he runs seminars at educational institutions and looks for prospective employees at these events. After completion of university in Ghana, all graduates must spend a year in "national service." Interestingly,

these “service interns” can work at a business firm as well. The CEO takes advantage of this program.

Future Growth

The CEO voiced his frustration that his business has so much potential and very few people understand the business, the value it adds, or the growth potential. He has already expanded beyond Ghana into Liberia and Nigeria. In order to aggressively expand, he feels that he needs to develop a stronger management team and that this is currently holding back progress. The CEO’s goal is to have a new structure in place by the end of 2012. He plans to attempt to expand into the oil sectors as well as invest additional capital in consumer goods manufacturing. He also mentioned that he believes that aluminum manufacturing has great potential. The raw materials are mined in Ghana but there is little domestic processing. He estimates that he needs approximately \$2M capital for his next phase of expansion. The CEO expressed no interest in eventually taking his company public.

Society and Social Capital

PPL’s CEO had a very different view of social networking than the other CEOs that we interviewed. The team thinks that this may be due to the nature of his business and function of the fact that he attended the Science and Technology University in Kumasi. He told us that 80% of his business came from his network from the university. The school is a large hub for Ghanaian engineers and he described a common course that all students attend at the university that is very important for networking.

The CEO did not elaborate on his network from secondary school and it did not seem to be an important network to him or his business. He also told us that he benefits very little from family member or tribal networks.

Encouraging Business Growth and Economic Development

The CEO of PPL also reiterated that the central government needs to be more proactive in marketing and needs to streamline the bureaucracy in order to improve business conditions. He told us that the national Infrastructure needs major improvement and road improvement needs to be the top priority.

The CEO also addressed social responsibility, which seems to be a common theme, stating, “We do what we can.”

APPL

On 28 June 2011, a team of researchers from the Network Science Center at West Point met with the Chief Executive Officer (CEO) of APPL, an small conglomerate of three companies that includes a firm that constructs custom building fittings for architects and construction (mainly focusing on stainless steel railings and other stainless steel fittings), a firm that manufactures cosmetics made of shea butter (shea butter is a common fat extracted from the African Shea tree and is becoming very popular in the cosmetic industry), and a firm that is manufacturing jewelry from native Ghanaian gemstones.

The architectural firm is approximately 3 years old, the shea butter enterprise has been in operation for 10 years, and the gem firm has been in operation about 5 years.

The current structure has evolved over time. The CEO's father originally founded three companies in the 1970s. These companies were focused on building materials. The CEO joined this firm in 1989 and has three brothers. As the father retired, each of the brothers focused on one of the original three companies.

There has been an amazing amount of ongoing construction in Ghana over the past ten years including office buildings and new hotels. The CEO sold a portion of the business that focused on electronic locking systems for hotels and offices and decided to focus on stainless steel fittings and ornamental fixtures. The company has been very successful winning not only commercial contracts (hotels and high-end commercial properties) but contracts from the Ghanaian government and the World Bank as well. The firm now has only 2 full-time employees and they outsource almost all functions. Interestingly, the firm used to be much larger with approximately 55 employees but regulations, unions, and business fluctuations led him to migrate to this outsource business model.

Interestingly, the firm constructs all of its customized stainless steel work at the construction site, utilizing subcontractors with raw material he imports from Germany, thus eliminating the need for a manufacturing facility. This is also an interesting approach to deal with the challenge of a constant power source. He ensures that the customer is responsible for supplying power at the work site.

The CEO believes that there is great growth potential in the shea butter cosmetics business but has mostly lost money in the venture but is in it for the "long haul."

APPL fits the definition of a Small and Medium Enterprise as defined by USAID; as stated, they 2 employees but numerous contractors, which with they have a relationship. Their estimated annual revenue for the architectural company is approximately \$150K (US). The CEO has a Computer Science degree from the Kwame Nkrumah University of Science and Technology in Kumasi, Ghana. Additionally, he attended Adisel College, one of Ghana's top secondary schools located in Cape Coast.

The team met with the CEO for several hours and had a wide-ranging discussion. The following subjects effectively synthesize our findings based on this meeting:

Government inefficiencies, practices, and regulatory requirements

Business Registration: The CEO confirmed the business registration process that we had heard during our previous interviews. He seemed comfortable with the bureaucratic process and mentioned that he knows that the “name check” is now electronic.

SME Access to Finance in Ghana

Based on our interview with the CEO of APPL, we identified the following challenges that Small and Medium Enterprises (SMEs) face in accessing finance in Ghana:

“Start-up” Capital:

The CEO told us that used retained earnings from the family business in order to “start up” the current incarnation. Due to the nature of his business, he has a lot of short-term capital needs. He told us that this is very difficult situation for a new business because, from his experience in Ghana, accounts receivable lag a long period of time. (Even government contracts are slow to pay; in one case, he has been waiting four years to be paid for work that his firm completed for the government.) He was fortunate because he had existing credit lines from suppliers with which he had previous business relationships.

The CEO told us that micro-finance rates are way too high and that the types of loans typically offered by organizations such as the International Finance Corporation are not “right-sized” for a firm like his.

The CEO has worked with Technoserve, a organization that helps entrepreneurial men and women in poor areas of the developing world to build businesses (<http://www.technoserve.org/>). He told us that Technoserve “discovered” his business when he was applying for “soap certification” at the Ghana Standards Board (<http://www.gsb.gov.gh>). This firm and USAID have sponsored trips that allowed the CEO to attend conferences and helped him develop a business plan.

The CEO was also very optimistic about the growth of a portion of the Ghanaian financial sector that is targeting SMEs. Two examples that he mentioned were uniBank (<http://www.unibankghana.com/>) and Oak Financial Services (<http://www.oakfinancialservices.com.gh/>).

“Post Start-up” Capital: As the firm grew, they actually did borrow capital from a commercial bank. The CEO told us that he will not borrow again from a commercial bank as the rates were too high. The CEO told us that when he bids on a contract that

he typically asks for a 70% advance from the customer. This technique currently allows him enough short-term capital to successfully execute the contract. Once again, our interview clearly demonstrated that concept of the “Missing Middle” that is evident throughout a large amount of current economic development analysis. APPL was not a good candidate for micro-finance, not eligible (initially) for commercial bank loans, but too small for funding from the large financial institutions. The efforts of an extremely bright and dedicated CEO and staff have allowed the company to grow despite these challenges to accessing capital.

Company Resources and Inputs

As stated earlier, APPL imports its raw material for its stainless steel products from Germany. This process is a major obstacle in the CEO's business process but he seems to have adjusted and has learned to effectively operate within the current system. He said that importation is easier now but he plans for a 2-week period for items to clear customs. He told us that he can order “overnight” a part or some equipment from Germany but that it will still be held up in customs. He explained that there are two different organizations that are involved: an independent inspection company that inspects both in-bound and out-bound goods to prevent pilfering by customs agents. Nonetheless, he stated that there are always problems with customs officials and that the customs agency is one of the most corrupt organizations in Ghana. He stated that importers need to pay customs a bribe to facilitate movement of goods. He has accepted this fact and it is a normal part of his business. The CEO also expressed dissatisfaction with the labor available to him. He told us that the labor pool is available but that the typical hire is not interested to grow with the business. He also mentioned that most university graduates are more interested in finance-not many are interested in manufacturing.

The company is located in an area of Accra that is called the North Industrial Area. It appeared to just be a zoning designation. We asked the CEO about any incentives that might be offered for manufacturing firms and we learned of different areas that are designated “free zones.” These free zones have some financial incentives in place but the firms need to be focused on manufacturing goods for export. He also mentioned that the initial set-up fees in these areas are prohibitive. Despite the constraints of the local infrastructure, the CEO told us that “it is manageable.”

Growth/Expansion Plans

The CEO is aggressively looking for ways to expand. An area that he is exploring is Liberia. Due to the recent violence and civil conflict, he believes that there is a great demand for his goods. He's exploring ways to possibly transfer technology and manufacture in Liberia.

The CEO is also exploring expanding into coconut oil; another oil that is commonly used in cosmetics.

The CEO is not adverse to partner with people that he can trust and does not mind giving up control of the business. He has no aversion to publically listing his company and is exploring methods to “lighten his load” such as licensing his cosmetic formulations to other manufacturers.

Social Capital

The CEO confirmed that told us that social classes are much more important and a large portion of this class structure derives from attendance at a secondary school. The CEO attended Adisel College, a prestigious secondary school in Ghana and this network is the network that has the most influence on business.